

## Message Text

CONFIDENTIAL

PAGE 01 LISBON 06070 01 OF 02 041434Z

53

ACTION EUR-08

INFO OCT-01 SS-14 ISO-00 NSC-05 NSCE-00 SSO-00 INRE-00

SP-02 L-01 H-01 INR-05 CIAE-00 OMB-01 TRSE-00 EB-03

SAM-01 PM-03 DODE-00 /045 W  
----- 120689

O R 041325Z SEP 76

FM AMEMBASSY LISBON

TO SECSTATE WASHDC IMMEDIATE 8437

INFO AMEMBASSY BONN

EEC BRUSSELS 1331

C O N F I D E N T I A L SECTION 1 OF 2 LISBON 6070

LIMDIS

E.O. 11652: GDS

TAGS: PINT, PFOR, PO

SUBJECT: SOARES REQUESTS U.S. LOAN

SUMMARY: SOARES ASKED ME SEPTEMBER 3 HOW HE SHOULD PROCEED TO OBTAIN A SUBSTANTIAL LOAN FROM THE USG TO ENABLE HIM TO MOVE AHEAD WITH HIS ECONOMIC RECOVERY PROGRAM. PRIME MINISTER PROPOSED A \$300 MILLION LOAN UNTIL THE END OF THE YEAR FOLLOWED BY A LONG-TERM LOAN OF ONE BILLION DOLLARS TO CARRY GOP THROUGH 1977. SOARES SAID GOP AGREES WITH US ON STEPS WHICH MUST BE TAKEN TO GET RECOVERY UNDERWAY. GOVERNMENT PROGRAM PROVIDES BASIS FOR SPECIFIC MEASURES WHICH WILL BE PHASED IN OVER PERIOD OF TIME DEPENDING ON STAFF WORK AND CONSTITUTIONAL PROCEDURES TO BE FOLLOWED. IN MEANTIME, LOAN COMMITMENT WAS URGENTLY NEEDED TO ALLOW FOR PLANNING. I TOLD SOARES WE WOULD RESPOND WITH PROCEDURAL SUGGESTIONS NEXT WEEK. END SUMMARY.

1. PRIME MINISTER MARIO SOARES ASKED ME TO COME BY TO SEE HIM ON AN URGENT MATTER LAST NIGHT, SEPTEMBER 3. CONVERSATION LASTED ABOUT ONE HOUR. NO AIDES WERE PRESENT.

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 LISBON 06070 01 OF 02 041434Z

2. SOARES SAID GOP INTENDED TO MOVE AHEAD ON ITS

ECONOMIC RECOVERY PROGRAM, BUT TO DO SO NEEDED TO FREE ITSELF FROM THE CONSTANT CONSTRAINTS IMPOSED BY INADEQUATE FINANCIAL RESOURCES. SINCE PROGRAM WOULD CALL FOR PLANNING THROUGH 1977 HE PROPOSED BY WAY OF FOLLOW UP TO SALGADO ZENHA LETTER TO SECRETARY SIMON A SHORT TERM LOAN OF \$300 MILLION THROUGH THE END OF THE YEAR. THIS WOULD BE FOLLOWED BY A LOAN OF ONE BILLION DOLLARS THAT WOULD CARRY THEM THROUGH 1977.

3. I TOLD SOARES THIS MATTER HAD, OF COURSE, BEEN DISCUSSED AT HIGHEST LEVELS OF U.S. GOVERNMENT. AS HE WAS AWARE, TREASURY HAD SENT AN EXPERT WHO HAD SUBMITTED A FULL REPORT. THERE WAS AGREEMENT IN PRINCIPLE THAT A LOAN MIGHT BE POSSIBLE IF THE GOP MOVES AHEAD WITH A PROGRAM ALONG THE LINES HE AND I HAD DISCUSSED ON SEVERAL OCCASIONS. OUR ANALYSIS WAS THAT THESE STEPS COULD LEAD TO A RELATIVELY RAPID INFLOW OF CAPITAL WHICH HAD FLED FOR SPECULATIVE PURPOSES; HENCE THE PRINCIPAL NEED FOR A LOAN WAS PSYCHOLOGICAL, NOT ECONOMIC. WE HAD BEEN THINKING IN TERMS OF UNDER \$500 MILLION. THE ONE BILLION FIGURE CONSIDERABLY EXCEEDED WHAT WE HAD THOUGHT WAS NECESSARY, BUT I WOULD SEE WHAT WASHINGTON'S REACTION WAS.

4. SOARES SAID THAT THE EXPERTS DIFFERED ON THE RATE OF RECOVERY THAT MIGHT BE POSSIBLE BUT HE WAS CONVINCED THAT A LARGE LOAN WOULD BE ABSOLUTELY NECESSARY TO CARRY THEM THROUGH 1977. HE HAD PROPOSED A \$300 MILLION - 1 BILLION BREAKDOWN AS A REFLECTION OF THE GOP NEEDS. HOWEVER, HE WOULD BE RECEPTIVE TO ANY OTHER FORMULA THAT WOULD ENABLE THE GOP TO OBTAIN THE KIND OF LARGE SCALE FINANCING THAT HAD BEEN MADE AVAILABLE TO OTHER COUNTRIES.

5. ON THE KINDS OF MEASURES TO BE TAKEN, SOARES SAID HE WAS IN FULL AGREEMENT WITH U.S. THE GOVERNMENT'S PROGRAM HAD ESTABLISHED THE NECESSARY BASE FOR THE COUNCIL OF MINISTERS TO MOVE AHEAD WITH CONCRETE  
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 LISBON 06070 01 OF 02 041434Z

ACTIONS OVER A PHASED PERIOD, DEPENDING ON THE STAFF WORK AND CONSTITUTIONAL PROCESSES TO BE FOLLOWED. SOME OF THE MEASURES WOULD BE PRESENTED IN A SPEECH SOARES PLANS TO MAKE ON SEPTEMBER 8.

6. SOARES ASKED WHAT THE US GOVERNMENT MIGHT SPECIFICALLY NEED IN ADDITION TO THE PROGRAM AND HIS ASSURANCE THAT IMPLEMENTATION WOULD TAKE PLACE DESPITE

POLITICAL OBSTACLES. I SAID IT WOULD BE USEFUL TO HAVE SOME IDEA OF TIMING ON MEASURES TO INCREASE LABOR PRODUCTIVITY, SUCH AS MODIFICATION OF LEGISLATION REGARDING WORKER DISMISSALS AND A DEFINITION OF WORKER CONTROL, AND WHAT THE GOP'S GENERAL ATTITUDE WAS TOWARD DEVALUATION. I EMPHASIZED THAT THE U.S. GOVERNMENT HAD NO INTENTION OF DICTATING MEASURES BUT WISHED TO BE ASSURED THAT THE GOVERNMENT WAS CONSCIOUS OF THE NEED TO MOVE AHEAD IN A COORDINATED FASHION AS RAPIDLY AS POSSIBLE.

7. SOARES SAID THE COUNCIL OF MINISTERS WAS PRESENTLY DEBATING WHETHER IT COULD LEGALLY ALTER THE LAW REGARDING DISMISSALS WITHOUT CONSULTING THE ASSEMBLY. HE COULD GIVE ME ABSOLUTE ASSURANCE THAT IF THERE ARE NO LEGAL IMPEDIMENTS TO IMMEDIATE ACTION, HE WILL NOT HESITATE AN INSTANT TO MAKE THE NECESSARY CHANGES. HE CALLED MY ATTENTION TO A MODIFICATION ALREADY MADE ALLOWING FOR TEMPORARY LABOR CONTRACTS IN THE CONSTRUCTION INDUSTRY. THE COUNCIL OF MINISTERS WAS ALSO DEBATING THE QUESTION OF DEVALUATION. THIS WAS A PROBLEM THAT HAD PLAGUED HIM FROM THE DAY HE TOOK OFFICE. HALF OF HIS ADVISORS FAVORED IT WHILE THE OTHER HALF WARNED AGAINST SPIRALING PRICES AND SOCIAL UNREST. HE RECOGNIZED THE PRESENT SITUATION

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 LISBON 06070 02 OF 02 041443Z

41

ACTION EUR-08

INFO OCT-01 SS-14 ISO-00 NSC-05 NSCE-00 SSO-00 INRE-00

SP-02 L-01 H-01 INR-05 CIAE-00 OMB-01 TRSE-00 EB-03

SAM-01 PM-03 DODE-00 /045 W

----- 120721

O R 041325Z SEP 76

FM AMEMBASSY LISBON

TO SECSTATE WASHDC IMMEDIATE 8438

INFO AMEMBASSY BONN

EEC BRUSSELS 1332

C O N F I D E N T I A L SECTION 2 OF 2 LISBON 6070

LIMDIS

WAS INTOLERABLE AND FIRM STEPS HAD TO BE TAKEN. FIRM MEASURES WERE ALSO BEING TAKEN TO GET THE BUDGET UNDER CONTROL AND STEPS WOULD SHORTLY BE ANNOUNCED TO LIMIT CONSUMPTION AND CURTAIL SUBSIDIES.

8. SOARES SAID THE COMMUNISTS WERE AWARE OF HIS PLANS AND WERE ALREADY CHALLENGING THE GOVERNMENT. FOR EXAMPLE, THEY WERE DELIBERATELY PROVOKING CRISES IN PRIVATE CONCERNS TO FORCE THE GOVERNMENT TO INTERVENE. THE GOP DID NOT INTEND TO FALL INTO THIS TRAP; TO THE CONTRARY IT WAS ADOPTING A POLICY OF TURNING NATIONALIZED COMPANIES BACK TO THE PRIVATE SECTOR. THIS HAD ALREADY BEEN DONE WITH ONE NATIONALIZED COMPANY IN NORTHERN PORTUGAL. COMMUNISTS WERE ALSO PROVOKING STRIKES AND DEMONSTRATIONS AGAINST THE GOVERNMENT, BUT HE INTENDED TO STAND FIRM. SOARES CALLED MY ATTENTION TO THE STERN TONE AND STRONG EMPHASIS ON WORK TAKEN BY THE PRESIDENT IN HIS SEPTEMBER 3 SPEECH IN OPORTO.

9. SOARES SAID THAT IF WE DESIRED HE WOULD BE PREPARED TO SEND A DELEGATION TO THE U.S. TO MOVE  
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 LISBON 06070 02 OF 02 041443Z

AHEAD ON SPECIFICS. THE DELEGATION WOULD BE LED BY SALGADO ZENHA AND SILVA LOPES, OR EVEN HIMSELF IF WE DESIRED A POLITICAL SPOKESMAN. HE STRESSED THE URGENCY OF ACTING NOW. THE GOP'S ASSESSMENT, HE CONCLUDED, WAS CONSISTENT WITH OURS AND THE NECESSARY MEASURES WOULD BE TAKEN. BUT HE NEEDED A LOAN AT THIS JUNCTURE TO ENABLE THE GOVERNMENT TO DOMINATE THE SITUATION AND SET THE TIMING AND PACE OF THE RECOVERY PROGRAM FREE OF UNBEARABLE FINANCIAL CONSTRAINTS.

10. I TOLD SOARES I WOULD REPORT HIS REQUEST TO WASHINGTON AND GET BACK TO HIM NEXT WEEK WITH ADVICE ON HOW HE MIGHT PROCEED.

11. COMMENT: I ATTACH IMPORTANCE TO THE FACT THAT THE REQUEST WAS MADE PERSONALLY AND INFORMALLY BY SOARES RATHER THAN BY LETTER OR THROUGH THE MINISTRY OF FINANCE. SOARES FACES CONSIDERABLE OPPOSITION TO HIS AUSTERITY PROGRAM, SOME OF IT FROM WITHIN HIS GOVERNMENT AND THE SOCIALIST PARTY. HIS ABILITY TO CONTROL MATTERS WILL DEPEND IN LARGE EXTENT ON THE BACKING HE RECEIVES FROM

ABROAD. IN MAKING THE REQUEST HIMSELF, HE NOT ONLY ELEVATES THE URGENCY AND IMPORTANCE OF THE MATTER, BUT HE ALSO IMPLIES THAT HE PERSONALLY NEEDS OUR SUPPORT.

12. ESSENTIALLY, SOARES IS ASKING US TO SUGAR COAT THE BITTER PILL HE IS PREPARING TO ADMINISTER TO THE PORTUGUESE ECONOMY -- AND TO THE COMMUNIST-DOMINATED LABOR SECTOR. AS A SOCIALIST LEADER COMMITTED TO IMPLEMENTING A CONSERVATIVE ECONOMIC PROGRAM, HOWEVER, HE NEEDS NOT ONLY ECONOMIC ASSISTANCE BUT ALSO THE POLITICAL BLESSING OF THE WEST WHICH THE LOAN WOULD SIGNIFY. WHILE SOARES' PERSONAL PRESENTATION LENDS CREDENCE TO HIS COMMITMENT TO THE PROGRAM WE BELIEVE NECESSARY, THERE IS, OF COURSE, AN ELEMENT OF HONEST DOUBT. SOARES HAD HAD SEVERAL MONTHS TO PREPARE FOR GOVERNING BUT HE IS STILL STRUGGLING WITH HIS OWN INTERNAL OPPOSITION. HE NEEDS TO SHAPE UP HIS OWN TEAM FAST. THE COMMUNISTS HAVE PUT  
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 LISBON 06070 02 OF 02 041443Z

HIM ON NOTICE THEY WILL NOT SURRENDER THEIR POSITIONS IN LABOR, ETC., WITHOUT A FIGHT (SUSLOV'S RECENT RECEPTION OF CUNHAL UNDERSCORES THIS POINT). IN SHORT, THE LINES ARE BEING DRAWN. THIS PROBABLY EXPLAINS SOARES' TIMING.

13. WE CAN, OF COURSE, CONTINUE TO WAIT UNTIL SOME OF THE MEASURES ARE ACTUALLY ON THE BOOKS. THIS WOULD GIVE US ADDED ASSURANCES IF IT WORKS, BUT IT WOULD PUT US IN THE AWKWARD POSITION OF DOUBTING SOARES' GOOD FAITH. NOR IS IT LIKELY TO IMPROVE SOARES' CHANCES OF GETTING THE MEASURES THROUGH. TO THE CONTRARY IT MAY MAKE IT MORE DIFFICULT. MY OWN JUDGEMENT IS THAT NOW IS THE TIME TO COME TO HIS SUPPORT. IF WE HOLD OFF WE RUN THE RISK THAT HIS GOVERNMENT'S PROGRAM WILL NEVER GET OFF THE GROUND WITH ALL THAT IMPLIES FOR FUTURE POLITICAL INSTABILITY.

13. I WOULD HOPE WE COULD INFORM SOARES THAT A U.S. REPRESENTATIVE, (I WOULD SUGGEST DON SYURUD) WILL COME TO LISBON AS SOON AS POSSIBLE IN ORDER TO HELP US NEGOTIATE CONCRETE TERMS OF A LOAN. IF THE DEPARTMENT AND TREASURY PREFER, HOWEVER, A DELEGATION COULD BE SENT TO WASHINGTON, BUT THIS WOULD MAKE IT MORE DIFFICULT TO DEAL DIRECTLY WITH SOARES SHOULD THAT BE NECESSARY.  
CARLUCCI

CONFIDENTIAL

NNN

## Message Attributes

**Automatic Decaptioning:** Z  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** LOANS, FOREIGN ASSISTANCE, ECONOMIC PROGRAMS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 04 SEP 1976  
**Decaption Date:** 28 MAY 2004  
**Decaption Note:** 25 YEAR REVIEW  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** ElyME  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1976LISBON06070  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** GS  
**Errors:** N/A  
**Film Number:** D760336-0635  
**From:** LISBON  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1976/newtext/t19760990/aaaaczfx.tel  
**Line Count:** 275  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION EUR  
**Original Classification:** CONFIDENTIAL  
**Original Handling Restrictions:** LIMDIS  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 6  
**Previous Channel Indicators:** n/a  
**Previous Classification:** CONFIDENTIAL  
**Previous Handling Restrictions:** LIMDIS  
**Reference:** n/a  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** ElyME  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 01 APR 2004  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <01 APR 2004 by BoyleJA>; APPROVED <11 AUG 2004 by ElyME>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
04 MAY 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** SOARES REQUESTS U.S. LOAN SUMMARY: SOARES ASKED ME SEPTEMBER 3 HOW HE SHOULD PROCEED TO OBTAIN A SUBSTANTIAL LOAN FROM THE USG TO ENABL  
**TAGS:** PINT, PFOR, PO, US, (SOARES, MARIO)  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006